ride the light

Qwest

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ORIGINAL

**Melissa E. Newman**
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RECEIVED

JUN 21 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 24, 2001

Mr. Gregory Cooke
Assistant Division Chief
Network Services Division
Federal Communications Commission
445 12th Street SW, 6th Floor
Washington, DC 20554

RE: Provision of Directory Listing Information; CC Dkt. No. 99-273

Dear Mr. Cooke:

Attached is information about the Directory Assistance Market that Qwest agreed to provide you. During a joint ex parte session with Verizon, SBC and BellSouth, on March 12, 2001, Clark Conniff, from Qwest, discussed a study by Frost & Sullivan on the Local Directory Assistance Services Market. Mr. Conniff agreed to provide you with the relevant information from that study that was referenced in the meeting; that information is attached.

Please call me if you have any further questions or need additional information.

Sincerely,

Melissa E. Newman

Attachments

No. of Copies rec'd 0
List A B C D E

*Source: Frost & Sullivan*



# Call Volume and Revenue Forecasts (1996-2006)

## REVENUE FORECASTS

Figure 13 shows the revenue forecast for local directory assistance services.

Local directory services revenues include monies received by the service providers for the use of local directory assistance by the retail wireline business and residential customers. These revenues include call completion revenues as well. It is to be noted here that these revenues do not include any monies generated from the provision of payphone DA services. Local directory assistance can be obtained through either the incumbent local carriers or the interexchange carriers. Whereas the incumbent carriers typically offer monthly call allowances (number of free local DA calls), the interexchange carriers, on the other hand, do not offer any LDA call allowances. Also, the prices for local DA vary largely among these two types of carriers. The previous section on pricing strategies provides a detailed discussion of the various pricing models prevalent in the directory assistance market(s).

FIGURE 13

Wireline Local Directory Assistance Services Market: Revenue Forecasts (U.S.), 1996-2006

| Year | Revenues ($ Billion) | Revenue Growth Rate (%) |
|---|---|---|
| 1996 | 1.85 | --- |
| 1997 | 1.91 | 3.2 |
| 1998 | 1.98 | 3.6 |
| 1999 | 2.06 | 3.9 |
| 2000 | 2.12 | 2.8 |
| 2001 | 2.17 | 2.3 |
| 2002 | 2.21 | 1.9 |
| 2003 | 2.25 | 1.8 |
| 2004 | 2.22 | (1.4) |
| 2005 | 2.15 | (2.8) |
| 2006 | 2.09 | (2.9) |

Compound Annual Growth Rate (1999-2006): 0.2%

*Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan*

As is indicative from the revenue growth rate in the figure above, the local DA market is increasingly moving towards maturity. This market which generated $2.06 billion in revenues in 1999, is expected to realize a compound annual growth rate of 0.2 percent over the forecast period which indicates that the market will remain flat between 1999 through 2006.

At the retail level, local DA market will continue to move towards market maturity. The rising prices for local DA and the growing competition from print directories will keep the market from experiencing an increase in usage. In addition, the rise in Internet and wireless penetration will further lead to reduced usage of wireline local directory services in the future. It is expected that the reduction in call allowances at the local level will lead to an increase in revenues during the initial phase of the forecast. On the whole, however, this increase is unlikely to reverse the local DA product life cycle. The revenue growth rate is projected to negatively spiral in the year 2004 as the steady decline in volume offsets the impact of increasing prices.

From a price elasticity point, the rate increases for LDA coupled with the elimination of call allowances will eventually force end users to turn to alternative mediums of information such as print and Internet DA. Also, the strong growth of the wireless sector will further push wireline local directory assistance toward market decline.

Figure 14 presents the volume forecasts for LDA.

Figure 14

Wireline Local Directory Assistance Services Market: Call Volume Forecasts (U.S.), 1996-2006

| Year | Call Volume (Billion) | Growth Rate (%) |
|---|---|---|
| 1996 | 4.91 | --- |
| 1997 | 4.99 | 1.5 |
| 1998 | 4.89 | (2.0) |
| 1999 | 4.70 | (3.8) |
| 2000 | 4.50 | (4.2) |
| 2001 | 4.30 | (4.6) |
| 2002 | 4.09 | (4.7) |
| 2003 | 3.90 | (4.8) |
| 2004 | 3.71 | (4.7) |
| 2005 | 3.54 | (4.8) |
| 2006 | 3.36 | (4.9) |
| Compound Annual Growth Rate (1999-2006): (4.7)% | | |

*Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan*

The volume for local DA is reflective of the total number of LDA calls at the retail level. These volumes do not include any requests for local DA derived from the use of IXC related DA services such as "OO" INFO or the 1+NPA-555-1212 services. Payphone and wireless volumes are not included here.

As previously stated, an attrition of volume is anticipated from the ILECs to the interexchange carriers. The higher prices for local DA while contributing toward greater profitability will restrain the volumes from increasing. In addition, the strong presence of print DA and the increasing wireless usage will further result in a decline in local DA volume. Finally, the use of NDA products such as 10-10-9000 to obtain local listings will further lead to a decline in traditional local DA usage (411 or 555-1212). It is estimated that the local DA volume will decline from 4.7 billion calls (including paid calls and call allowances) in 1999 to 3.36 billion calls in 2006.

## Call Volume and Revenue Forecasts (1996-2006)

### Revenue Forecasts

Figure 10 shows the revenue forecast for national directory assistance services. The national DA revenues include all monies received by the service providers for the use of 1+NPA-555-1212 long distance directory assistance and single number NDA services such as 10-10-9000 by the retail end users. Furthermore, these revenues also include monies generated from the provision of call completion services. Although a bulk of NDA services bundle call completion charges within the price of the listing(s), the 1+NPA-555-1212 DA services still offer call completion services as an optional feature for an additional charge. These revenues do not include any payphone DA revenues. Moreover, the revenues do not include any long distance revenues generated as a result of the use of national DA services. For instance, when using a DA service such as 10-10-9000 the caller may opt for free call completion thereby connecting the call and incurring long distance revenues. However, this report includes only the cost of the listing plus any related call completion charges and not the long distance/toll revenues that may be generated once the call is connected to the desired listing/number.

In 1999, the national DA market generated $1.18 billion in revenues. The development and deployment of single number NDA has provided the carriers with new growth avenues. Particularly in the case of the RBOCs, the provision of 411 NDA has enabled them to cut into IXCs' long distance directory services revenues. For the IXCs, single number NDA is helping the long distance carriers penetrate local DA market. Also, from a toll perspective, the marketing of NDA is helping the IXCs expand their long distance revenues (although these revenues are not included in this study).

The expanded search capabilities of the NDA products, continued changes in area codes, and the simple dialing patterns of the NDA services are the leading reasons behind the growth of these services. Furthermore, the strong marketing of the NDA products is also helping to increase its awareness among end users which is leading to greater service usage for both local and national DA needs. It is estimated that the NDA market will grow at an average rate of 5.3 percent throughout the forecast period reaching $1.69 billion in 2006.

FIGURE 16

Wireline National Directory Assistance Services Market: Revenue Forecasts (U.S.), 1996-2006

| Year | Revenues ($ Billion) | Revenue Growth Rate (%) |
|---|---|---|
| 1996 | 0.99 | --- |
| 1997 | 1.04 | 5.2 |
| 1998 | 1.11 | 6.4 |
| 1999 | 1.18 | 6.7 |
| 2000 | 1.26 | 7.1 |
| 2001 | 1.36 | 7.3 |
| 2002 | 1.44 | 6.5 |
| 2003 | 1.52 | 5.4 |
| 2004 | 1.59 | 4.2 |
| 2005 | 1.64 | 3.5 |
| 2006 | 1.69 | 2.9 |
| Compound Annual Growth Rate (1999-2006): 5.3% | | |

*Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan*

## DEMAND ANALYSIS

Figure 17 presents the volume forecasts for retail NDA services. As is the case with local DA, the NDA volumes do not include any wireless or payphone DA calls.

At the retail level, part of the volume for single number NDA is expected to originate from users of 1+NPA-555-1212 service. However, the carriers also expect new usage to surface primarily due to the extensive advertising campaigns. For the RBOCs, the provision of 411 NDA has enabled them to generate additional directory services revenues. The lower RBOCs prices for NDA coupled with the greater awareness of their brands/dialing patterns is helping them attract long distance DA users away from the interexchange carrier provided 1+NPA-555-1212 long distance DA services.

FIGURE 17

Wireline National Directory Assistance Services Market: Call Volume Forecasts (U.S.), 1996-2006

| Year | Call Volume (Billion) | Growth Rate (%) |
|---|---|---|
| 1996 | 0.94 | --- |
| 1997 | 0.98 | 4.6 |
| 1998 | 1.04 | 5.3 |
| 1999 | 1.10 | 6.1 |
| 2000 | 1.17 | 6.4 |
| 2001 | 1.25 | 6.6 |
| 2002 | 1.32 | 5.5 |
| 2003 | 1.38 | 4.7 |
| 2004 | 1.43 | 3.8 |
| 2005 | 1.47 | 3.1 |
| 2006 | 1.51 | 2.4 |

Compound Annual Growth Rate (1999-2006): 4.6%

*Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan*

From the IXC perspective, the provision of single number NDA will enable them to attract some of the local DA volume. The projection of these services (such as 10-10-9000 or "OO" INFO) as a single source for all information needs is expected to encourage end users to use these services for both national and local listings. Also, the improvements in accuracy rate for these services in future will also lead to their repeat usage by the end users. In addition, the absence of alternative DA sources such as the print directories in the NDA arena will also contribute toward a positive usage growth rate. Although, Internet DA presents an alternative to NDA, its relatively low penetration rate among residential customers is unlikely to have a significant impact on NDA usage, at least in the short run. Moreover, the extremely low accuracy rate of Internet DA will further lead end users toward telephone DA.

It is estimated that the NDA volume will increase from 1.1 billion calls in 1999 to 1.51billion calls in 2006. The compound annual growth rate is estimated to be 4.6 percent over the forecast period.

# Strategic Analysis and Forecasts of the U.S. Enhanced Directory Assistance Services Market

## Market Overview and Definitions

EDA is an evolution of traditional LDA and NDA in which information, in addition to a single listing, such as multiple listings from a single call or concierge services, can be purchased from an operator. Only wholesale revenue and volume from services conforming to this definition are accounted for in this analysis.

## Market Forecasts

### Revenue Trend Analysis

Figure 14 presents the U.S. wholesale EDA revenue forecast for 1997-2006.

Figure 14

Wholesale Enhanced Directory Assistance (EDA) Services Market: Revenue Forecasts (U.S.), 1997-2006

| Year | Revenues ($ Million) | Revenue Growth Rate (%) |
|---|---|---|
| 1997 | 10.2 | --- |
| 1998 | 10.7 | 4.7 |
| 1999 | 11.7 | 9.6 |
| 2000 | 12.7 | 8.3 |
| 2001 | 13.8 | 8.5 |
| 2002 | 14.9 | 7.7 |
| 2003 | 16.2 | 9.2 |
| 2004 | 17.5 | 7.7 |
| 2005 | 18.7 | 7.2 |
| 2006 | 20.0 | 6.6 |

Compound Annual Growth Rate (1999-2006): 7.9%

*Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan*

The U.S. wholesale market for EDA was approximately $12 million in 1999, a gain of 9.6 percent over 1998 revenues. Similar to the NDA segment, the revenues from EDA are expected to increase over the course of the forecast period, but at a slightly faster rate than NDA. In 2000, wholesale EDA revenues should be $12.7 million, growing 8.3 percent over the 1999 revenue figure. In 2002, revenues should reach $14.9 million, on a gain of 7.7 percent from 2001 revenues of $13.8 million. In 2006, revenues are expected to reach $20 million, up 6.6 percent from 2005. The CAGR for revenues from the wholesale EDA market from 1999 to 2006 is projected to be 7.9 percent.

### Demand Trend Analysis

Figure 15 presents the U.S. wholesale EDA volume forecast for 1997 to 2006.

Figure 15

Wholesale Enhanced Directory Assistance (EDA) Services Market: Volume Forecasts (U.S.), 1997-2006

| Year | Calls (Million) | Volume Growth Rate (%) |
|---|---|---|
| 1997 | 20.9 | --- |
| 1998 | 23.3 | 11.5 |
| 1999 | 26.1 | 12.0 |
| 2000 | 28.9 | 10.7 |
| 2001 | 32.1 | 11.1 |
| 2002 | 35.4 | 10.3 |
| 2003 | 39.6 | 11.9 |
| 2004 | 43.7 | 10.4 |
| 2005 | 48.0 | 9.9 |
| 2006 | 52.5 | 9.4 |

Compound Annual Growth Rate (1999-2006): 10.5%

*Note: All figures are rounded; the base year is 1999. Source: Frost & Sullivan*

The wholesale volume for EDA is expected to experience significant growth through 2006. Wholesale EDA volume should be 26.1 million in 1999, an increase of 12.0 percent from the estimated 23.3 million calls in 1998. In 2000, this volume is expected to grow to 28.9 million calls. In 2002, wholesale EDA calls should reach 35.4 million, up 10.3 percent from the 32.1 million calls in 2001. In 2006, the market is projected to reach a volume of 52.5 million calls, up 9.4 percent from 2005 levels. The CAGR on wholesale EDA volume for 1999 to 2006 is forecast to be 10.5 percent.